

LEGISLATIVE AUDIT COMMISSION



Review of
DeWitt, Livingston & McLean Counties
Regional Office of Education #17
Year Ended June 30, 2004

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4245
DEWITT, LIVINGSTON, & MCLEAN COUNTIES
REGIONAL OFFICE OF EDUCATION #17
YEAR ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 10

ACCEPTED or IMPLEMENTED - 10

REPEATED RECOMMENDATIONS - 4

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7

This review summarizes the audit of the DeWitt, Livingston and McLean Counties Regional Office of Education #17 for the year ended June 30, 2004, filed with the Legislative Audit Commission on October 27, 2005. The auditors performed a financial audit in accordance with the Single Audit Act and OMB Circular A-133. The auditors stated that they were unable to express an opinion on Regional Office of Education #17's financial statements as of June 30, 2004 due to a scope limitation created because the ROE's accounting records were insufficient to determine the balance of the cash account.

The regional superintendent, who is elected from the counties served by the Regional Office, is responsible for all aspects of supervision, reports and financial accounting of school districts which are considered by State law to be in the Service Region. In addition, the regional superintendent is charged with responsibility for township fund lands; registration of the names of applicants for scholarships to State controlled universities; examinations and related duties; visitation of public schools; direction of teachers and school officers; to serve as the official advisor and assistant of school officers and teachers; to conduct teacher institutes as well as to aid and encourage the formation of other teachers meetings and assist in their management; evaluate the schools in the region; examine school treasurer's books, accounts and vouchers; examine evidence of indebtedness; file and keep the returns of elections required to be returned to the regional superintendent's office; and file and keep the reports and statements returned by school treasurers and trustees.

The regional superintendent is also charged with the responsibilities of conducting a special census, when required; providing notice of money distributed to treasurers, board presidents, clerks, and secretaries of the school districts on or before each September 30; maintenance of a map and numbering of the region's districts; providing township treasurers with a list of district treasurers; to inspect and approve building plans which comply with State law; to perform and report on annual building inspections; investigate bus drivers for valid driver permits; to maintain a list of unfilled teaching positions and carry out other related duties required or permitted by law.

REVIEW: 4245

The regional superintendent is responsible for inspection and approval or rejection of school treasurer's bonds and to show that treasurers of school districts under his or her control are properly bonded. The regional superintendent is responsible for apportionment and payment of funds received from the State for the districts in the region. The regional superintendent is required to provide opinions and advice related to controversies under school law. Currently the Regional Office has 104 full-time and part-time employees. There are 86 public school buildings in Region #17.

The Regional Superintendent for Region #17 during the audit period was the Honorable G. Lawrence Daghe. Mr. Daghe assumed the position of Regional Superintendent in July 2003. Previously, he served as a district superintendent.

Revenues and Expenditures

Revenues to Regional Office #17 are as follows:

	FY 04	FY 03
Total Revenues	\$ 5,635,949	\$ 5,853,154
Local Sources	\$ 2,904,980	\$ 3,392,889
% of Total Revenues	51.54%	57.97%
State Sources	\$ 1,645,478	\$ 1,948,816
% of Total Revenues	29.20%	33.30%
Federal Sources	\$ 1,085,491	\$ 511,449
% of Total Revenues	19.26%	8.74%

Expenditures by Regional Office #17 are as follows:

	FY 04	FY 03
Total Expenditures	\$ 5,265,216	\$ 5,858,875
Salaries and Benefits	\$ 2,496,029	\$ 4,247,860
% of Total Expenditures	47.41%	72.50%
Purchased Services	\$ 900,952	\$ 592,510
% of Total Expenditures	17.11%	10.11%
All Other Expenditures	\$ 1,868,235	\$ 1,018,505
% of Total Expenditures	35.48%	17.38%
Total Net Assets	\$ 1,433,157	\$ 924,066
Investments in Capital Assets	\$ 438,490	\$ 312,332

Accountants' Findings and Recommendations

Condensed below are the ten findings and recommendations presented in the audit report. There were four repeated recommendations. The updated responses to the recommendations were provided by G. Lawrence Daghe, Regional Superintendent, in a letter dated January 9, 2006.

Accepted or Implemented

- 1. Begin tracking funds by program expenditures rather than by revenue source so that the Regional Office can easily determine the operational costs of each grant program. (Repeated 2002)**

Findings: The ROE tracks funds by revenue source rather than by program expenditures. Some of the ROE's grants have more than one funding source. Rather than transferring other sources of revenue into the grant fund to pay the grant expenses, the ROE transfers the expenses out of the grant funds and into the general operating fund. Therefore, the ROE is unable to determine the true operational cost of each grant.

Response: Accepted. The Office will track funds by program expenditures rather than revenue source.

- 2. Require that purchasing and disbursement procedures be the same for all programs and funds. (Repeated 2003)**

Findings: The Livingston County Alternative School accounting department does not comply with the purchasing and disbursement procedures of the ROE. The ROE does not have a proper segregation of duties for accounting functions for the Livingston Alternative School. The program director and Regional Superintendent review and approve bills and payroll for payment. The bookkeeper prepares checks, mails the payments, maintains the general ledger, and reconciles the bank statements.

Updated Response: Implemented. As of October 1, 2005 all accounting and payroll functions are completed at the Regional Office of Education #17.

- 3. Implement internal controls to ensure expenditures are paid based upon the original invoice amount with proper cancellation of the invoice to prevent duplicate payments. (Repeated 2003)**

Findings: The ROE does not have sufficient internal controls in place to ensure that proper disbursement procedures are followed. The auditors tested 175 disbursements and noted the following:

REVIEW: 4245

- Invoices were not canceled after payment in 19 instances.

Accepted or Implemented – continued

- Payment was made based on a copy of an invoice and not an original in five instances.
- Authorization forms were not signed by the program director or Superintendent in 10 instances.
- There was no receipt, invoice, or other documentation supporting the disbursement amount present in 12 instances.
- There was no authorization form present in two instances.
- In one instance, the check amount did not agree with the supporting documentation.

Response: Accepted. The Office will implement internal controls to ensure expenditures are paid based upon the original invoice amount with proper cancellation of the invoice to prevent duplicate payments.

Updated Response: Implemented. Additional staff has been assigned to insure proper disbursement procedures.

- 4. Ensure that the Institute Fund balances published as required by statute are accurate, and do not transfer Institute Funds to other programs. The funding should be expended exclusively through the Institute Fund and the expenditures restrictions set forth in statute should be followed.**

Findings: The ROE has insufficient review and internal controls to ensure that Institute Fund balances are published correctly. The Institute Fund balances published did not reconcile to the corresponding general ledger balances.

Also, the ROE is not applying the same expenditure restrictions set forth in the School Code to Institute Funds transferred to the Staff Development Intersection program. Institute funding was not expended for the purposes set forth in the School Code.

Response: Accepted. Inaccurate financial reporting of the Institute Fund balances will cease. Institute Fund will be expended for the purposes set forth in the School Code.

- 5. Record the State Aid and National School Lunch funding as State revenue and only record it once in the general ledger. Also, begin tracking all funding sources as federal, State, or local in accordance with the ROE Accounting Manual requirements.**

Findings: The ROE has insufficient review and internal controls, and it did not comply with the requirements of the ROE Accounting Manual. By recording State Aid and National School Lunch funding twice in the general ledger, total revenues for the Office were overstated by \$706,992.

Updated Response: Implemented. All funding sources are tracked as federal, state, or local in accordance with the ROE Accounting Manual requirements.

6. Review the capital asset addition report with the original supporting documentation to ensure that the ROE's capitalization policy is being followed.

Findings: The ROE has insufficient review and internal controls over asset capitalization. The Office's capital asset listing included many items having a cost or value of less than \$500. One item with a cost exceeding the \$500 threshold had not been recorded on the capital asset listing.

Response: Accepted. The ROE shall capitalize all asset purchases that exceed \$500 to prevent the cost of capital assets from being overstated.

7. Implement procedures to ensure that all fund balances are reconciled at the beginning of the accounting period and that the individual funds are periodically reviewed to ensure that they are in balance.

Findings: The ROE had inaccurate financial reporting due to insufficient review and internal controls. The Bus Drivers Training and Indirect Fund were out of balance by \$2,546 and \$113, respectively. Thirteen adjusting journal entries were needed to correct beginning fund balances.

Updated Response: Implemented. Bank reconciliations are performed and reviewed to assure fund balancing.

8. Review each original bank reconciliation to their related general ledger account balances monthly to ensure the reconciliations are completed in a timely manner and that all reconciling items are reviewed with the appropriate follow-up.

Findings: The ROE did not ensure that bank statements were reconciled to the related general ledger cash accounts. The auditors noted the following:

- The Office's beginning unadjusted general ledger balance for their operating account was \$2,434 less than the balance per the June 2004 bank reconciliation.
- In May 2004, the Office posted a prior year adjusting audit entry backwards which resulted in the Adult Education program's cash being understated and its fund balance being overstated by \$81,001.
- The Office's ending adjusted general ledger balance for their operating account was \$78,710 more than the balance per the June 2004 bank reconciliation after the incorrect posting of the prior year adjusting audit entry.

Accepted or Implemented – concluded

- The Office did not have the reconciled balance of the Illinois Funds account recorded in the general ledger, which understated the Office's total cash in the general ledger by \$22,318. In addition, bank reconciliations of the Illinois Funds account were not being performed.

Response: Accepted. The Office will work to ensure that all bank statements are reconciled to the related general ledger cash accounts.

The ROE hired Gorenz and Associates to review the balances and final reconciliations. Procedures for monthly bank reconciliations are in place. Software irregularities were addressed by an outside consultant to bring all database problems back into balance.

Accounting software has been changed from RAP to E-Nucleus-J-School to assist in getting more accurate and consistent reporting of general ledgers. All reconciling items will be reviewed with the appropriate follow-up.

The ROE will provide internal control to ensure that bank statements and Illinois Funds Account are reconciled accurately to the general ledger on a monthly basis. Illinois Funds Account will be reconciled.

9. Review payroll filings and their supporting payroll reports to ensure accurate payroll reporting to the Internal Revenue Service.

Findings: The ROE filed an incorrect fourth quarter Form 941, Employer's Quarterly Federal Tax Return.

Response: Accepted. This was a singular incident which did not require a response from the IRS. All payroll reports have the amounts proofed at time of payroll processing, as well as at the time of reporting.

Updated Response: Implemented.

10. Review expenditure reports and their supporting documentation prior to their actual filing to ensure accuracy; and should routinely review expenditures and grant restrictions to ensure that the Office is in compliance with the grant agreement.

Findings: The Office's June 30, 2004 expenditure report did not agree to the related general ledger accounts. The report included prior year accounts payable amounts as current year expenditures. Also, the grant agreement for Title I restricted the amount of the grant funding that could be spent on planning administration to 3.5% of the total grant

REVIEW: 4245

award. The maximum amount allowed was \$1,665. For FY04, 5.7% of the grant award, or \$2,703, was expended for planning administration.

Response: Accepted. The grant directors will be given a general ledger for each of the grants that they are reporting. Each report shall show the expenditures for the grants. The Title I-Reading First Part B SEA Funds grant had an outstanding receivable that was not paid until after June 30, 2004. The grant was to be reimbursed for planning activities from professional development funds.

Updated Response: Implemented.